

PROPOSED RESOLUTION

Resolution W-5109
WD

Agenda ID #15108

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

WATER DIVISION

RESOLUTION W-5109

September 15, 2016

RESOLUTION

**(RES. W-5109) LAKEVIEW WATER COMPANY. ORDER
AUTHORIZING A GENERAL RATE INCREASE
PRODUCING ADDITIONAL ANNUAL REVENUES OF
\$4,178 OR 54.1%, FOR TEST YEAR 2016 AND \$3,731 OR
31.4%, FOR TEST YEAR 2017 TO BE PAID BY THE
RATEPAYERS.**

SUMMARY

Lakeview Water Company filed Advice Letter Number 16 on May 23, 2016, requesting authority under Rule 7.6.2 of General Order (G.O.) 96-B, Water Industry Rule 7.3.3(5), and Section 454 of the Public Utilities Code to increase rates for water service to produce additional annual revenues of \$5,765 or 85.0%, above current revenues to recover increased expenses and earn a 0% rate of margin for Test Year 2016 and to increase rates for water service to produce additional annual revenues of \$3,906 or 31.1%, above Test Year 2016 revenues to earn a 22.75% rate of margin for Test Year 2017. Lakeview Water Company also requests establishment of a Facilities Fee Schedule.

This resolution grants Lakeview Water Company a general rate increase producing additional annual revenues of \$4,178, or 54.1%, and a rate of margin of 0% for Test Year 2016 and a general rate increase producing additional annual revenues of \$3,731 or 31.4%, and a rate of margin of 22.75% for Test Year 2017. This resolution also authorizes a Facilities Fee Schedule of \$500 as the initial fee for each service connection.

BACKGROUND

Lakeview Water Company (Lakeview) serves a single subdivision with 11 connections in Tracts No. 7133 and 7733 approximately seven miles north of Havasu Landing, in San

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Bernardino County. The service territory is surrounded by the lake on the east and tribal lands on the south, west, and north.

The last general rate case (GRC) increase for Lakeview became effective January 1, 1999, pursuant to Resolution W-4085, which authorized an increase of 100% for Test Year 1998 and 50% for Test Year 1999. The Test Year 1999 rates were set to operate at a loss. The utility agreed to this because it anticipated substantial growth. However, this growth did not materialize and the utility continues to operate at a loss.

NOTICE AND PROTESTS

Notice of the proposed rate increase was mailed to Lakeview's customers on May 23, 2016. No protests regarding the proposed rate increase have been received.

DISCUSSION

In reviewing Lakeview's rate increase request, the Water Division (Division) made an independent analysis of the utility's operations. Appendix A of this resolution shows Lakeview's and the Division's estimates of operating revenues, expenses and rate base. Appendix A also shows the differences in Lakeview's and the Division's estimates in operating revenues, expenses, and rate base which are discussed below. Lakeview was informed of the Division's differing views of revenues, expenses and rate base and agrees with the Division's recommended revenue requirement in Appendix A, as well as the recommended rates contained in Appendix B.

Expenses

The Division reviewed Lakeview's estimated 2016 operating expenses, including purchased power, employee labor, plant maintenance, management salary, professional services, insurance, and taxes other than income. The Division verified the operating expenses by reviewing supporting documents for substantiation and accuracy and included the amounts that were verifiable and deemed reasonable for ratemaking purposes. Errors were found in the insurance account and the taxes other than income account and appropriate adjustments were made. The utility is in agreement with the resulting new estimate.

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Lakeview had proposed to forgo a management salary for the first test year to mitigate rate shock. The Division agrees.

Rate Base and Depreciation

The Division reviewed Lakeview's plant accounts from the last authorized test year (1999) through TY 2016 and agrees with its 2015 Annual Report figure for total plant in service. Lakeview does not expect to make any plant additions for TY 2016 or for TY 2017. The Division accepts the 2.5% depreciation rate used by Lakeview and uses this rate to depreciate plant in service adopted in its last authorized test year to make its TY 2016 estimate of rate base \$7,233 and \$3,757 for TY 2017.

Rate of Margin

Lakeview had proposed to forgo net revenue for the first test year to mitigate rate shock. The Division agrees.

Lakeview has requested a 22.75% Rate of Margin for TY 2017 in accordance with the Division's March 28, 2016 Memorandum. In Decision (D.) 92-03-093, effective April 30, 1992, the Commission adopted the Return on Margin (ROM) ratemaking as an alternate to the Return on Net Investment (Rate Base) method for calculating net revenue for Class C and Class D Utilities and required the Division to recommend the method that produces the higher net revenue result. Since the estimated rate base is almost fully depreciated and therefore almost zero, the Division found that using the 22.75% rate of margin currently allowed for a Class D utility would produce more net revenue than the rate of return on rate base method. Therefore, the Division recommends using the 22.75% rate of margin to calculate the proposed revenues for TY 2017.

Rate Design

Lakeview's current rate structure consists of two schedules: Schedule No. 1, General Metered Service and Schedule No. 2R, Residential Flat Rate Service. Lakeview has requested to eliminate the metered tariff as it has never offered metered service and it would not be practical in the near future. The Division agrees. At the Division's recommended rates shown in Appendix B, a customer's bill will increase from \$117.00 to \$180.30 bimonthly or 54.1% for Test Year (TY) 2016 and from \$180.30 to \$236.84 bimonthly or 31.4% for TY 2017. A comparison of customer bills at present and

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recommended rates is shown in Appendix C. The adopted quantities and tax calculations are shown in Appendix D.

Lakeview also requests the inclusion of a Facilities Fee Schedule, Schedule No. F, into its tariffs with \$500 as the initial fee for each service connection. The Division has reviewed Lakeview's proposal and concurs with the addition of the proposed schedule.

SAFETY AND COMPLIANCE

Lakeview has no outstanding compliance orders and the utility has been filing annual reports as required. Lakeview meets all applicable drinking water quality standards as required by the San Bernardino County Department of Public Health.

COMMENTS

This is an uncontested matter that pertains solely to a water corporation. Accordingly, pursuant to Public Utilities Code Section 311(g) (3), this resolution is exempt from the 30-day period for public review and comment.

FINDINGS

1. The Summary of Earnings (Appendix A) recommended by the Water Division is reasonable and should be adopted.
2. The rates (Appendix B) recommended by the Water Division are reasonable and should be adopted.
3. The quantities (Appendix D) used to develop the recommendations of the Water Division are reasonable and should be adopted.
4. The water rate increase authorized herein is justified and the resulting rates are just and reasonable.
5. Lakeview Water Company should be allowed to file a supplement to Advice Letter No. 16 to incorporate the revised rate schedules (Appendix B) and to concurrently cancel its presently effective Rate Schedules.

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6. The proposed Facilities Fee Schedule of \$500 as the initial fee for each service connection is reasonable and should be adopted.
7. This is an uncontested matter subject to public notice comment exclusion provided in PU Code Section 311(g)(3).

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THEREFORE, IT IS ORDERED THAT:

1. Authority is granted under Public Utilities Code Section 454 to Lakeview Water Company to file a supplemental advice letter with the revised rate schedules attached to this Resolution as Appendix B, and concurrently cancel its presently effective Rate Schedule No. 1, General Metered Service and Schedule No. 2R, Residential Flat Rate Service. The effective date of the revised schedules shall be five days after the date of filing.
2. Authority is granted under Public Utilities Code Section 454 to Lakeview Water Company to file a supplemental advice letter with the new Facilities Fee Schedule as attached to this Resolution in Appendix B. The effective date of the new schedule shall be five days after the date of filing.
3. This Resolution is effective today.

I certify that the foregoing Resolution was duly introduced, passed, and adopted at a conference of the Public Utilities Commission of the State of California held on September 15, 2016; the following Commissioners voting favorably thereon:

TIMOTHY J. SULLIVAN
Executive Director

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APPENDIX A LAKEVIEW WATER COMPANY

Appendix A				
Lakeview Water Company				
SUMMARY OF EARNINGS				
Test Year 2016				
Item	Utility Estimated		Branch Estimated	
	Current Rates	Requested Rates	Current Rates	Recommended Rates
OPERATING REVENUES				
Flat Rates	\$6,786	\$12,551	\$7,722	\$11,900
Total Revenue	\$6,786	\$12,551	\$7,722	\$11,900
OPERATING EXPENSES				
Purchased Power	\$2,019	\$2,019	\$2,019	\$2,019
Other Volume Related Expenses	\$0	\$0	\$0	\$0
Employee Labor	\$1,200	\$1,200	\$1,200	\$1,200
Materials	\$0	\$0	\$0	\$0
Contract Work (Excl Water Testing)	\$0	\$0	\$0	\$0
Water Testing	\$0	\$0	\$0	\$0
Transportation	\$0	\$0	\$0	\$0
Other Plant Maintenance	\$390	\$390	\$390	\$390
Office Salaries	\$0	\$0	\$0	\$0
Management Salaries	\$0	\$0	\$0	\$0
Employee Benefits	\$0	\$0	\$0	\$0
Uncollectibles	\$0	\$0	\$0	\$0
Office Services & Rental	\$0	\$0	\$0	\$0
Office Supplies and Exp	\$0	\$0	\$0	\$0
Professional Services	\$2,054	\$2,054	\$2,054	\$2,054
Insurance	\$1,726	\$1,726	\$1,558	\$1,558
Regulatory Comm Exp	\$0	\$0	\$0	\$0
General Expenses	\$0	\$0	\$0	\$0
Subtotal	\$7,389	\$7,389	\$7,221	\$7,221
Depreciation Expense	\$2,976	\$2,976	\$2,976	\$2,976
Taxes other than income	\$1,386	\$1,386	\$903	\$903
State Income Tax	\$800	\$800	\$800	\$800
Federal Income Tax	\$0	\$0	\$0	\$0
Total Deductions	\$12,550	\$12,551	\$11,900	\$11,900
NET REVENUE	(\$5,764)	(\$0)	(\$4,178)	\$0
RATE BASE				
Plant in Service	\$ 119,042	\$119,042	\$119,042	\$119,042
Accumulated Depreciation	\$ 112,309	\$ 112,309	\$ 112,309	\$112,309
Net Plant	\$ 6,733	\$ 6,733	\$6,733	\$6,733
Advances			\$0	\$0
Net Contributions	\$0	\$0	\$0	\$0
Construction Work in Progress	\$0	\$0	\$0	\$0
Working Cash	\$0	\$0	\$0	\$0
Materials and Supplies	\$500	\$500	\$500	\$500
Rate Base	\$ 7,233	\$ 7,233	\$ 7,233	\$ 7,233
RATE OF MARGIN	-49.06%	0.00%	-37.64%	0.00%

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Appendix A				
Lakeview Water Company				
SUMMARY OF EARNINGS				
Test Year 2017				
Item	Utility Estimated		Branch Estimated	
	Current Rates	Requested Rates	Current Rates	Recommended Rates
OPERATING REVENUES				
Flat Rates	\$6,786	\$16,457	\$7,722	\$15,631
Total Revenue	\$6,786	\$16,457	\$7,722	\$15,631
OPERATING EXPENSES				
Purchased Power	\$2,019	\$2,019	\$2,019	\$2,019
Other Volume Related Expenses	\$0	\$0	\$0	\$0
Employee Labor	\$1,200	\$1,200	\$1,200	\$1,200
Materials	\$0	\$0	\$0	\$0
Contract Work (Excl Water Testing)	\$0	\$0	\$0	\$0
Water Testing	\$0	\$0	\$0	\$0
Transportation	\$0	\$0	\$0	\$0
Other Plant Maintenance	\$390	\$390	\$390	\$390
Office Salaries	\$0	\$0	\$0	\$0
Management Salaries	\$600	\$600	\$600	\$600
Employee Benefits	\$0	\$0	\$0	\$0
Uncollectibles	\$0	\$0	\$0	\$0
Office Services & Rental	\$0	\$0	\$0	\$0
Office Supplies and Exp	\$0	\$0	\$0	\$0
Professional Services	\$2,054	\$2,054	\$2,054	\$2,054
Insurance	\$1,726	\$1,726	\$1,558	\$1,558
Regulatory Comm Exp	\$0	\$0	\$0	\$0
General Expenses	\$0	\$0	\$0	\$0
Subtotal	\$7,989	\$7,989	\$7,821	\$7,821
Depreciation Expense	\$2,976	\$2,976	\$ 2,976	\$2,976
Taxes other than income	\$1,386	\$1,386	\$903	\$903
State Income Tax	\$800	\$800	\$800	\$800
Federal Income Tax	\$0	\$496	\$0	\$470
Total Deductions	\$13,150	\$13,647	\$12,500	\$12,970
NET REVENUE	(\$6,364)	\$2,810	(\$4,778)	\$2,662
RATE BASE				
Plant in Service	\$119,042	\$ 119,042	\$119,042	\$ 119,042
Accumulated Depreciation	\$115,285	\$ 115,285	\$115,285	\$ 115,285
Net Plant	\$ 3,757	\$ 3,757	\$ 3,757	\$ 3,757
Advances			\$0	\$0
Net Contributions	\$0	\$0	\$0	\$0
Construction Work in Progress	\$0	\$0	\$0	\$0
Working Cash	\$0	\$0	\$0	\$0
Materials and Supplies	\$500	\$500	\$500	\$500
Rate Base	\$4,257	\$4,257	\$4,257	\$4,257
RATE OF MARGIN	-51.53%	22.75%	-40.84%	22.75%

(END OF APPENDIX A)

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APPENDIX B Schedule No. 2R RESIDENTIAL FLAT RATE SERVICE

APPLICABILITY

Applicable to all residential service furnished on a flat rate basis.

TERRITORY

Tract Nos. 7133 and 7733, located approximately 7 miles north of Havasu Landing, San Bernardino County.

RATES

	Per Service Connection <u>Bi-Monthly</u>	
For each single-family residential unit for service until June 30, 2017	\$180.30	(I)
For each single-family residential unit for service After June 30, 2017	\$236.84	(I)

SPECIAL CONDITIONS

1. The above flat rates apply to a service connection not larger than one inch in diameter.
2. Any service not covered by the above classification shall be furnished on a metered basis.
3. In the event that a customer terminates service under this schedule and reinstates service at the same location within 12 months, there will be a reconnection charge equal to the minimum charge which would have been billed had the customer not terminated service. (N)
|
|
(N)
4. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(continued)

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Schedule No. F FACILITIES FEES

APPLICABILITY

Applicable to all customers applying for service from the utility in the Territory served for premises not previously connected to its distribution mains, for additional service connections to existing premises, and for increases in size of service connections to existing premises. (N)

TERRITORY

Tract Nos. 7133 and 7733, located approximately 7 miles north of Havasu Landing, San Bernardino County.

RATES

Initial Fee for each Service Connection: \$500

1. Facility fees are payable in addition to and do not limit any charges for extensions of mains that may be applicable under Rule 15, Main Extensions. (N)
2. These fees are not subject to the Public Utility Commission Reimbursement Fee surcharge in Schedule UF.
3. These fees shall be used only for the repair and replacement or the installation of new infrastructure.
4. These fees shall be deposited in a separate trustee account and used only upon permission of the Division of Water and Audits or its successor. (N)

(END OF APPENDIX B)

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APPENDIX C LAKEVIEW WATER COMPANY

COMPARISON OF RATES TEST YEAR 2016

<u>Tariff Description</u>	Bimonthly Rates		Recommended Increase	
	<u>Current</u>	<u>Recommended</u>	<u>Dollars</u>	<u>Percentage</u>
Flat Rate	\$117.00	\$180.30	\$63.30	54.1%

COMPARISON OF RATES TEST YEAR 2017

<u>Tariff Description</u>	Bimonthly Rates		Recommended Increase	
	<u>TY2016</u>	<u>Recommended</u>	<u>Dollars</u>	<u>Percentage</u>
Flat Rate	\$180.30	\$236.84	\$56.54	31.4%

(END OF APPENDIX C)

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APPENDIX D LAKEVIEW WATER COMPANY ADOPTED QUANTITIES TEST YEAR 2016

Expenses:

1. Purchased power (Electric and Gas)

Vendor	So. Cal.
Schedule	Edison
Effective Date	TOU-PA-2-B
Number of Meters	July 1, 2016
Adopted Usage KWH	1
Total Purchased Power Cost	4,789
Composite Energy Cost (\$/KWH)	\$2,019
	\$0.42200

2. Number of Service Connections: 11

3. Tax calculation:

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$11,900	\$11,900
2.	O & M Expenses	\$7,221	\$7,221
3.	Taxes Other Than Income	\$903	\$903
4.	Depreciation	\$2,976	\$2,976
5.	Interest Expense	\$0	\$0
6.	Taxable Income for State Tax	\$800	
7.	State Tax	\$800	
8.	Taxable Income for FIT		\$0
9.	Federal Income Tax		\$0
10.	Total Income Tax		\$800
California Corporate Franchise Rate			8.84%
Federal Income Tax			15%

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ADOPTED QUANTITIES TEST YEAR 2017

Expenses:

1. Purchased power (Electric and Gas)

Vendor	So. Cal.
Schedule	Edison
Effective Date	TOU-PA-2-B
Number of Meters	July 1, 2016
Adopted Usage KWH	1
Total Purchased Power Cost	4,789
Composite Energy Cost (\$/KWH)	\$2,019
	\$0.42200

2. Number of Service Connections: 11

3. Tax calculation:

Line No.	Item	State Tax	Federal Tax
1.	Operating Revenue	\$15,631	\$15,631
2.	O & M Expenses	\$7,821	\$7,821
3.	Taxes Other Than Income	\$903	\$903
4.	Depreciation	\$2,976	\$2,976
5.	Interest Expense	\$0	\$0
6.	Taxable Income for State Tax	\$3,931	
7.	State Tax	\$800	
8.	Taxable Income for FIT		\$3,131
9.	Federal Income Tax		\$470
10.	Total Income Tax		\$1,270
California Corporate Franchise Rate			8.84%
Federal Income Tax Rate			15%

(END OF APPENDIX D)

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LAKEVIEW WATER COMPANY ADVICE LETTER NO. 16 SERVICE LIST

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